Company Announcement

25 November 2020

Turners delivers robust HY21 earnings, despite COVID disruption

- Group revenue 14% lower at $148m
- Reported NPBT increased 26% to $18.7m
- Underlying NPBT down 11% to $13.1m
- Reported NPAT increased 25% to $13.4m
- Used car market proved resilient, rebounding strongly for `high trust' Turners brand
- Robust annuity earnings from Finance and Insurance validates diversified business model
- Diversified business with 'high trust' brands supported robust earnings
- Progress accelerating for transition to digital offering, reducing costs, increasing resilience and enhancing the customer experience
- NPBT guidance for FY21 to be toward the upper end of guidance of $28m to $31m, conditional on no significant further lockdowns
- Projected FY dividend 17.0 cps at mid-point of guidance

Turners Automotive Group (NZX: TRA) delivered robust earnings in HY21 despite a disrupted operating period, with the used car market rebounding after COVID-19 lockdowns, and the Group's diversified annuity businesses in Finance and Insurance supporting resilience and contributing to strong and sustainable yield.

Todd Hunter, CEO, said: *"Given the tumultuous start to the year with a Level 4 COVID-19 lockdown, and high levels of uncertainty, we are delighted with how our team responded to improve our ability to operate in pandemic conditions, as well as improving the resilience of the business to sustain strong yields. Our diversified business, and the quality of our trusted brands, proved robust in the face of market uncertainty, and enabled us to accelerate our strategic plan to lead in the digital space and strengthen our national position in Auto Retail."*

Financial results

Reported NPBT, which is the basis for Turners' full year guidance, increased 26% to $18.7m with net profit after tax (NPAT) of $13.4m, up 25% on the same period last year. Underlying NPBT was down 11% to $13.1m, with a reconciliation of reported and underlying numbers available on slide 9 of the investor presentation, also published today.

Earnings per share for HY21 were 15.7 cps, up 27% on the previous year. Following the suspension of dividends during lockdown, the Board resumed dividend payments with a Q1 dividend of 4.0 cps. A further 4.0 cps has been declared for Q2, taking HY21 dividends to 8.0 cps. This reflects the dividend policy adopted by the Board last year to pay-out 60-70% of net profit after tax (NPAT).

Grant Baker, Chairman, commented**:** *"Our commitment to delivering strong and sustainable yield to shareholders remains a clear focus for the company. It is pleasing to see the benefits from our strategy of a diversified business showing results and our focus on building a quality business for our team, our customers and our shareholders. Despite some real challenges this year so far, we have not only built further resilience, but made progress with plans to strengthen our position in our key markets in the long term as well as reducing cost and improving our systems and operations. Obviously, market conditions remain somewhat uncertain as the COVID-19 pandemic continues around the world, but this necessity to stress test our business has not been without reward."*

Results by division

All parts of the business contributed to the first half profit, and this diversity means the company is well-placed, assuming no further major COVID-19 disruption, to achieve NPBT toward the upper end of guidance provided at the annual shareholders meeting.

Auto Retail: Revenue $96.1m – 17%, NPBT $7.8m +6%

The Automotive Retail division revenue was 17% lower at $96.1m, reflecting suppressed activity during lockdown, but also a strong rebound since. A focus for the half was on COVID-19 recovery and cost management. Volumes have recovered since, but the main driver of improving profitability in the months since lockdown has been margins. Margin expansion is due to a number of buying initiatives and by tight supply of cars nationally, due to the supply constraints in “New” cars.

Whilst there was a substantial disruption early in the half, the used car market has demonstrated resilience, not just rebounding after lockdowns, but through the economic cycle as customers consider lower cost options. The company continues to benefit from a diverse geographic footprint (which was well demonstrated during the recent partial lockdown in Auckland.) Turners diversified sources of supply and trusted brand position is proving highly valuable in times of uncertainty.

Finance: Revenue $23.2m +2%, NPBT $7.6m +18%

The Finance division contributed strongly to the first half, with annuity earnings helping during lockdown. Finance sales also showed a solid rebound following lockdown. Revenue for HY21 was $23.2m, up 2% on last year. NPBT was $7.6m up 18% of the year prior, as Oxford benefitted from higher margins, lower accruals and greater cost efficiencies.

Remarkably, less than 70 customers (0.29% of customers) are currently in hardship status. The division’s focus on high quality borrowers has seen record low levels of arrears reflecting the risk-pricing strategy over recent years, and the business is well-placed for the second half of the year to continue its expansion. Oxford has built a material buffer in arrears provisioning to allow for any unemployment increase in future months.

During the period, premium risk tier lending increased to over 50% as shown in the presentation also released to the market today. Finance continues to be a strong performer within the group, and it is notable that Finance’s profit contribution over recent years has grown significantly, from 24% in 1H19 to 33% in 1H21.

Insurance: Revenue $21.1m -5%, NPBT $4.5m +74%

Insurance revenue decreased 5% to $21.1m due to the impact of lockdowns. However, NPBT was up 74% to $4.5m on higher margins, reducing overhead costs and the finish of amortising the acquired premium portfolio as part of the Autosure acquisition from Vero in 2017.

The division contributed to the overall result and cashflow via annuity earnings during lockdown, with premiums taken up front. Progress was made on building out distribution, as well as continued investment in digital and system integration. As with Finance, the division continues to focus on quality, as was evidenced with combined claims ratios improving, from 69% in 1H19 to 59% in 1H21 and AM Best upgrading its credit rating and financial strength rating for Insurance.

Credit Management: Revenue $7.0m -29%, NPBT $3.0m -17%
Credit management revenue decreased 29% to $7.0m, and the impact of COVID-19 was visible in market-wide conservatism with respect to debt collection actions during the first phase of the pandemic. NPBT was also down 17% to $3.0m

The division remains an important part of the diversification strategy, offering a hedge for any potential cyclical downturn ahead. The division has been successful in managing cost in a reduced debt load environment and maintains strong relationships with debt lenders. The business expects to load more debt over coming months, following a hiatus period during and post lockdown, during which lenders prioritized managing reputation over collections. A similar pattern was experienced post the GFC, before a busy collection period began.

A transition to a digital-based business is continuing. The division is working closely with referrers to manage and improve customer outcomes as we go forward into an environment where bad debts are likely to increase and debt collection services will see increasing demand.

Digital strategy bearing fruit
Right across the Group, the expansion of the digital strategy over several years is bearing fruit and contributed greatly during the period under review. This was accelerated as part of the COVID-19 response where no or low contact transactions and customer service was required. COVID-19 added useful impetus to momentum within the business to move to digital platforms and lower-cost, easy-to-use self-provisioning models for customers. We see an opportunity to achieve market leadership in digital across all business sectors, further increasing resilience, lowering cost, and improving customer experience.

Outlook and Guidance
Although the strong market rebound post-lockdowns has been pleasing, the business remains focused on agility and the ability to manage uncertainty while the COVID-19 pandemic remains rife throughout the world. The stress test that COVID-19 provided has proved the benefits of the Group's strategy of diversification, digital leadership, national distribution and the development of trusted brands.

For every month since June, group operating profit has been well above levels in FY20. Meanwhile, a number of reductions to the fixed cost base will deliver ongoing benefits over the years to come.

In terms of Q321, key themes have continued, including:

- Auto: continued supply constraints, better-than-expected demand contributing to margin improvement on owned inventory,
- Finance: strong new lending, with arrears at historic lows,
- Insurance: strong sales of new policies, and claims ratios improving; and
- Credit Management: debt loads to increase as corporate customers reinitiate collections actions

Building on continued robust performance thus far in Q321, the Board expects to achieve toward the upper end of its FY21 NPBT guidance of $28m to $31m, as supplied to the market at September's ASM. This assumes that there are no significant further lockdowns in New Zealand in FY21. At the mid-point of the guidance range, this could yield a full year dividend of 17.0 cps, according to the Board's dividend policy.

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About Turners

Turners Automotive Group Limited is an integrated financial services group, primarily operating in the automotive sector www.turnersautogroup.co.nz

For further information, please contact:

Todd Hunter, Chief Executive Officer, Turners Automotive Group Limited, Mob: 021 722 818
Media Liaison and Assistance: Jackie Ellis, Mob: 027 246 2505